

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**DIRECTIONS FOR THE FORMATION
AND IMPLEMENTATION OF AN EFFECTIVE FISCAL
POLICY IN ECONOMIC DEVELOPMENT**

Specialization: 5301.01 – Domestic Fiscal Policy and Public Finance

Field of Science: Economic sciences

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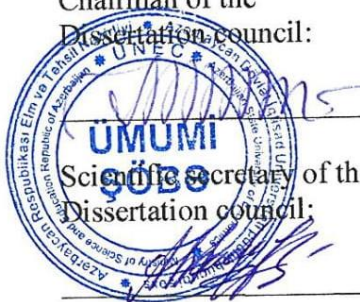
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GENERAL OVERVIEW OF THE RESEARCH

Relevance of the Research Topic and the Degree of its Elaboration. The primary objective of the transformation-oriented reforms carried out in the country is to ensure a high rate of economic growth and, on this basis, to enhance the standard of living of the population. In this context, the attainment of socio-economic development is directly contingent upon the fiscal policy of the state. At the present stage of economic development, the identification of new priorities in fiscal policy and the establishment of an economic model with long-term potential for dynamic growth have become particularly urgent. Among the various resources that contribute to economic development, fiscal policy is distinguished by its efficiency and its decisive role in influencing economic processes.

Depending on the fiscal policy of the state, one of the key factors influencing the main macroeconomic parameters is the active use of fiscal instruments in the regulation of socio-economic balance. In this respect, the importance of government budget expenditures and tax revenues in ensuring macroeconomic stability is directly linked to the purposeful orientation of their impact on economic processes. The positive outcomes of fiscal policy predetermine the sustainability of economic development. From this perspective, the effective application of fiscal instruments as one of the directions shaping the competitive advantages of the national economy acquires particular relevance and further underscores the importance of fiscal policy in economic development.

It is well known that among the essential components of fiscal policy, the creation of a favorable tax environment in every sphere of economic activity and the application of preferential tax systems to stimulate capital flows into priority sectors are of paramount importance. Within this framework, special emphasis is placed on measures aimed at eliminating the dependence of the budget on raw material exports. Under such circumstances, budget revenues acquire a volatile character, leading to the expansion of public expenditures and necessitating revisions of tax rates. Fluctuations in export prices of raw materials, in turn, adversely affect the financial condition of economic sectors.

The foregoing demonstrates that, among the instruments of state

influence on the economy, fiscal policy—particularly tax revenues and budget expenditures—possesses broader capacities. In this context, one of the most important features of the fiscal system is the maximum concentration of financial resources at the budgetary level. Thus, in the contemporary era, characterized by the intensification of the impact of global financial processes on the economy, the problem of developing and implementing an efficient fiscal policy naturally comes to the forefront. This makes it possible to optimize state revenue sources through careful selection, to ensure the sustainability of revenues, and to allocate public funds in a rational and well-substantiated manner. It is no coincidence that the “Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan” identifies as one of its core objectives the “results-based formulation of budgets in order to ensure the most efficient use of financial resources for predetermined priority targets”¹.

It is also evident that the tax system exerts a significant influence on the development of the national economy. Taxes play a crucial role in stimulating or constraining consumer demand, as well as in encouraging savings and capital accumulation. Within fiscal policy, ensuring the effective regulatory role of taxation over income, safeguarding the interests of taxpayers, creating favorable conditions for budget revenues and the standard of living of the population, and attracting foreign investment are considered among the most pressing issues. The “Tax Code of the Republic of Azerbaijan” specifically defines “the rules for establishing, paying, and collecting taxes, as well as the rights and obligations of taxpayers, state tax authorities, and other participants in tax relations regarding matters of taxation.” Consequently, taking into account both objective and subjective factors, the study of the theoretical and methodological foundations of the formation and development of fiscal policy, as well as its interrelated components, becomes especially relevant.

Among Azerbaijani economists who have addressed the problems of fiscal policy formation, its development, effective implementation, and impact on economic growth are Z.A.Samadzade, A.A. Alakbarov, B.Kh. Atashov, Y.A.Kalbiyev, S.M.Mammadov, M.M. Sadigov, N.N.

¹ *Strategic Roadmap for the Development of Financial Services in the Republic of Azerbaijan.*” Decree of the President of the Republic of Azerbaijan dated December 6, 2016.

Khudiyev, M.M. Baghirov, M.J. Huseynov, D.A. Baghirov, M.Kh.Hasanli, Z.F.Mammadov, E.M.Sadigov, Sh.S. Gafarov, E.A.Ibrahimov, among others.

Fundamental studies of the problems of forming an effective fiscal policy and its impact on economic development have also been extensively conducted by A. Smith, W. Petty, D. Ricardo, J.M. Keynes, P.A. Samuelson, M. Friedman, C.R. McConnell, S. Fischer, A.D. Gromov, I.A. Busoyedov, N.P. Biryukova, and others.

Object and Subject of the Research. The object of the dissertation research is the spheres of economic activity in which fiscal policy is implemented and the fiscal mechanisms employed therein. The subject of the research comprises the issues, regularities, methods, and instruments related to the implementation of effective fiscal policy and its impact on economic development, as well as the matters concerning the improvement of fiscal policy.

Purpose and Objectives of the Research. The purpose of the research is to investigate the theoretical and methodological aspects of the formation of effective fiscal policy and, based on the assessment of its current state and efficiency, to develop proposals and recommendations regarding the priorities of fiscal policy and the ways of enhancing its effectiveness in ensuring economic development.

To achieve this purpose, the following objectives were defined and accomplished:

- to examine the conceptual foundations of the formation of fiscal policy;
- to study the impact of government budget expenditures on the development of the national economy;
- to identify the possibilities of applying international experience in the implementation of fiscal policy;
- to analyze the characteristics and dynamics of the main indicators determining the level of economic development of the country;
- to determine the development characteristics of the economic activity sectors of the country;
- to analyze the parameters of the state budget as the main financial plan of the government;
- to evaluate tax revenues and their impact on economic development;

- to identify the directions for the realization of efficiency criteria of fiscal policy in ensuring economic development;
- to determine the ways of improving the interrelation between budgetary and tax policy;
- to prepare proposals concerning the directions for improving fiscal policy.

Research Methods. In the dissertation, the study of fiscal policy and the existing problems related to economic development was conducted using methods such as observation, analysis, synthesis, economic-mathematical methods, economic-statistical methods, analytical review, generalization, and comparative analysis.

Key Statements Submitted for Defense. The key statements submitted for defense are as follows:

- It is necessary to investigate the development characteristics of economic activity sectors based on the generalization of scientific-theoretical views on the formation of fiscal policy and the assessment of the impact of budget expenditures on economic development.
- Studying the models used in international practice for the implementation of fiscal policy oriented toward economic development and determining the possibilities of their application in the Republic can yield significant benefits.
- Analyzing the characteristics and development trends of the main indicators determining the level of economic development provides an adequate basis for future forecasts.
- One of the main objectives should be the identification of directions for implementing fiscal policy efficiency criteria to ensure economic development.
- In the context of determining the interrelation between budgetary and tax policy, forecasting the directions of development of these relations is of significant importance.
- Based on the criteria for enhancing the efficiency of fiscal policy in ensuring economic development, it is necessary to implement measures for improving fiscal policy in this direction.

Scientific Novelty of the Research. The scientific novelty of the research is characterized by the following:

- Based on the study of conceptual approaches to the formation of fiscal

policy and the fiscal policy models of advanced countries, the relationship between government budget expenditures and the pace of national economic development has been identified;

- The role of budget parameters in shaping the main indicators characterizing the country's level of economic development has been determined;
- The impact of tax policy, including tax revenues, on economic development has been established, and the rationale for the formation of taxes and expenditures within the state budget as the primary instrument of fiscal policy has been provided;
- The role of the state in optimizing the level of tax burden and the ways to improve the interrelation between budgetary and tax policy have been determined based on evaluation;
- The necessity of considering objective market laws, tax legislation, and the interests of both the state and taxpayers to increase budget revenues and ensure stable economic development has been substantiated;
- Proposals and recommendations for improving fiscal policy have been developed, and opportunities for implementing effective fiscal policy have been identified.

Theoretical and Practical Significance of the Research. The theoretical significance of the research lies in the fact that the conceptual approaches to the formation of fiscal policy and the scientific findings derived from them can serve as a reliable source for future studies aimed at ensuring economic development.

The practical significance of the research is characterized by the development of proposals for the preparation and implementation of an effective fiscal policy oriented toward economic development. This includes the identification of directions for realizing the efficiency criteria of fiscal policy, the improvement of interrelations between budgetary and tax policy, and the determination of priorities for optimizing fiscal policy. The results obtained and the proposals advanced can be utilized in the preparation of relevant projects, programs, and strategies aimed at ensuring and enhancing the effectiveness of fiscal policy.

Approval and Application. The topic of the dissertation corresponds to the general direction of research activities at the

Department of Finance and Banking of Azerbaijan Cooperation University and has been discussed and endorsed as a relevant contemporary issue at ongoing scientific seminars. The main statements of the research have been published in four theses (including one abroad) and seven articles (including one abroad) in reputable international and national journals recommended by the Higher Attestation Commission under the President of the Republic of Azerbaijan, as well as in conference materials.

Institution Where the Dissertation Was Conducted.

Azerbaijan Cooperation University.

Volume of the Dissertation and its Structural Sections.

The dissertation, comprising an introduction, three chapters, a conclusion, and a list of references, totals 230,794 characters. The introduction contains 11,077 characters; Chapter I – 58,423 characters; Chapter II – 46,166 characters; Chapter III – 75,331 characters; conclusion – 12,105 characters; and the list of references – 15,829 characters. The research includes 16 tables, 3 graphs, 1 diagram, and 4 figures. The list of references contains 124 sources. Excluding tables, graphs, figures, and references, the dissertation text contains 203,102 characters.

STRUCTURE OF THE DISSERTATION

INTRODUCTION

CHAPTER I. THEORETICAL AND METHODOLOGICAL FOUNDATIONS OF FISCAL POLICY FORMATION

- 1.1. Conceptual Foundations of Fiscal Policy Formation
- 1.2. The Impact of Government Budget Expenditures on the Development of the National Economy
- 1.3. International Experience in the Implementation of Fiscal Policy

CHAPTER II. ASSESSMENT OF THE CURRENT STATE AND EFFECTIVENESS OF FISCAL POLICY IN AZERBAIJAN

- 2.1. Analysis of the Current Status of Economic Indicators Determining the Level of National Economic Development
- 2.2. Analysis of Budget Parameters as the Main Financial Plan of the State
- 2.3. Evaluation of Tax Revenues and Their Impact on Economic Development

CHAPTER III. DIRECTIONS FOR IMPROVING FISCAL POLICY AND ENHANCING ITS EFFICIENCY IN ENSURING ECONOMIC DEVELOPMENT IN AZERBAIJAN

- 3.1. Prospects for Implementing Efficiency Criteria of Fiscal Policy in Ensuring Economic Development
- 3.2. Ways to Develop the Interrelation between Budgetary and Tax Policy
- 3.3. Directions for the Improvement of Fiscal Policy
- 3.4. Linking Fiscal Policy with Economic Development and Its Stimulating Aspects

CONCLUSION

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BRIEF SUMMARY OF THE RESEARCH

In the introduction of the dissertation, the relevance of the research topic has been substantiated, the objectives and tasks of the study, as well as the research methods employed, have been characterized, the key statements submitted for defense have been explained, and the scientific novelty, theoretical and practical significance, and approval of the research have been outlined.

In Chapter I, titled **“Theoretical and Methodological Foundations of Fiscal Policy Formation,”** the conceptual foundations of fiscal policy formation have been examined, the impact of government budget expenditures on the development of the national economy has been analyzed, and international experience in implementing fiscal policy has been reviewed.

Economic stability largely depends on structural transformations within the economy, its socio-economic and organizational potential, and the legal framework that supports the emergence of new economic relations and the development of economic processes. This necessitates the implementation of effective fiscal policy. In this context, achieving a high rate of economic growth and improving the standard of living of the population are among the principal objectives of economic policy. The attainment of these objectives, in turn, depends on the formation of an effective fiscal policy, its implementation mechanisms, and the rational optimization of state revenues through appropriate sources. It should be noted that the scope of structural changes required for effective economic development, given both resource limitations and management considerations, necessitates sufficient diversification of fiscal policy measures.

Fiscal policy represents the state’s ability to influence economic processes through adjustments in the government budget and is implemented using the interconnected budgetary and tax systems. Fiscal policy is aimed at reducing the tax burden on economic agents and establishing an efficient tax system to ensure a balanced state budget. Effective fiscal policy, taking into account the interests of both taxpayers and the state, involves determining the maximum permissible tax burden and implementing measures for its adjustment—either increasing or

decreasing it—in order to achieve an optimal revenue effect.

The state budget of any country reflects critical economic and social issues in both economic development and public life. It serves not only as a measure of government activity and the state's financial capacity but also as a system consolidating funds designated for state needs. As a primary instrument of financial regulation, the state budget acts as a regulator of ongoing socio-economic processes. It ensures the distribution of the gross domestic product (GDP) among regions, social groups, and sectors of the economy in accordance with economic development strategies, fiscal policy objectives, and the requirements of the market mechanism. Through the budget, the volume of revenue collections and budgetary expenditures is determined. As a key component of the state financial system, the budget reflects monetary relations and interactions between the state and enterprises, organizations, institutions, and individuals of various ownership forms. The efficient allocation of state resources for expanded reproduction, improvement of living standards, and other social needs constitutes one of the primary priorities of fiscal policy. Overall, the budget enables the state to concentrate financial resources on the most critical directions of economic and social development. According to the definition, the budget is “the principal financial document through which funds necessary for the execution of state and municipal responsibilities, via the relevant state authorities and local self-government bodies, are collected and utilized”².

The economic essence of government budget expenditures primarily lies in their function as an instrument of economic policy. Through budget expenditures, the state influences the structural regulation of the economy, redistribution processes, the growth of national income, the development of individual sectors, and the enhancement of economic competitiveness. By utilizing budgetary resources, the state can affect the social dimensions of economic policy and ensure the reproduction of the workforce.

The impact of government expenditures on the rate of economic growth manifests in two directions: firstly, through an increase in the share of public spending in GDP, which stimulates productivity

² *Law of the Republic of Azerbaijan “On the Budget System.” July 2, 1992 (as amended and supplemented).*

intensification via capital allocation; secondly, the need to finance increased government expenditures leads to higher tax burdens, which can negatively affect economic growth³. These observations underscore the importance of determining an optimal structure of public expenditures to maximize the rate of economic growth.

Global economic processes and various directional fluctuations have adversely affected the public debt and budget deficits of many countries. To address these challenges, states seek to reduce the debt burden and budget deficit and to enhance the pace of economic growth by adopting more effective fiscal mechanisms based on the economic development experience of leading countries. In this context, fiscal policy plays a crucial role in optimizing budget expenditures, implementing structural changes, reforming the taxation system, and stimulating economic activity to increase budget revenues. The fiscal system must not only provide an efficient mechanism for collecting budgetary payments but also ensure the protection of taxpayers within the legal framework.

Chapter II, titled **“Assessment of the Current State and Effectiveness of Fiscal Policy in Azerbaijan,”** presents the characteristics of the main indicators determining the country’s level of economic development, analyzes the parameters of the state budget as the primary financial plan, and evaluates tax revenues and their impact on economic development.

The level of economic development of a country reflects key economic parameters, including the development of productive forces, demand for goods produced, the balance between supply and demand, and the scientific and technical components of sectoral and overall economic development. Since the components and factors of economic development cover the most important aspects of economic dynamics, they play a crucial role in forming the structure of economic development, maintaining socio-economic stability, and ensuring the maturity of market institutions.

Economic development characterizes the purposeful process of quantitative and qualitative changes in the structure and parameters of the economic system, determining the system’s balance, advancement, and

³ Кудрин А. Л., Кнобель А. Ю. Бюджетная политика как источник экономического роста // *Вопросы экономики*. 2017. № 10. С. 5- 26.

acquisition of new characteristics. Quantitative and qualitative changes are reflected in labor productivity, GDP growth, per capita GDP, improvements in the quality of life, and other indicators. The outcome of economic development is the refinement of the economic system and an increased capacity of the economy to adapt to existing processes. This process is influenced not only by progressive technical and technological developments but also by regressive trends such as environmental degradation and depletion of natural resources. These factors contribute significantly to the transformation of the economic system into more advanced forms, resulting in structural changes and increases in growth parameters at macro and micro levels.

When evaluating the level of economic development, it is essential to consider the characteristics and interrelations of individual sectors, as these ultimately determine the primary factors of national economic growth. Overall economic development is closely linked to the performance of each sector and economic agent. Therefore, research requires consideration of both macroeconomic and microeconomic indicators, as well as a comprehensive assessment of economic development across all sectors. Analysis of key macroeconomic indicators demonstrates that, compared to 2020, these indicators exhibited positive growth dynamics by 2024. Specifically, during the period under review, GDP increased by 74.1%, household income by 49.0%, average monthly nominal wages by 42.6%, state budget revenues by 50.1%, state budget expenditures by 42.8%, household bank deposits by 79.3%, the value of fixed assets by year-end by 21.7%, credit allocations doubled, and investments directed to the economy increased by 47.4%. In 2020, budget revenues accounted for 34.0% of GDP and expenditures 36.4%, while in 2024, revenues represented 29.4% of GDP and expenditures 29.9% (Table 1).

Table 1
Dynamics of Key Macroeconomic Indicators

Indicators	2020	2021	2022	2023	2024
Gross Domestic Product (GDP), million AZN	72578,1	93203,2	133972,7	123128.4	126337.0
Household Income, million AZN	55754,1	57206,8	69163,0	78050.2	83093.4
Average Monthly Nominal Wage, AZN	707,7	732,1	840,0	933.8	1009.2
State Budget Revenues:					
million AZN	24681,7	26396,3	30679,6	35236.4	37161.8
as a percentage of GDP	34,0	28,3	22,9	28.9	29.4
State Budget Expenditures:					
million AZN	26416,3	27422,4	32064,6	36458.0	37712.7
as a percentage of GDP	36,4	29,4	24,0	29.6	29.9
Household Bank Deposits (year-end), million AZN	8177,9	9241,5	11743,0	12947.8	14661.9
Population (year-end), thousand people	10026,1	10063,3	10127,1	10180.8	10224.9
Fixed Assets (year-end), million AZN	240694,0	259274,9	269438,4	281,691.1	292,732.3
Credit Allocations (year-end), million AZN	14530,4	17119,8	20184,0	23,979.1	29,288.2
Investments Directed to the Economy, million AZN	22484,0	25313,8	29135,1	32080.9	33135.6

The table was compiled by the author based on data from the State Statistical Committee.

Ensuring the equality of budget revenues and expenditures reflects a balanced fiscal policy. In this regard, attention to this issue is considered one of the most important aspects of economic research. Analysis of state budget revenues indicates that, compared to 2020, total budget revenues in 2024 increased by 50.6%. Specifically, revenues from personal income tax grew by 59.8%, corporate profit tax revenues increased 2.9 times, property tax revenues rose by 81.2%, value-added tax revenues increased by 84.6%, excise tax revenues grew by 73.2%, mineral resource tax revenues rose by 33.1%, revenues from foreign economic activity-related taxes increased by 63.9%, land tax revenues increased by 33.1%, revenues from other taxes grew by 25.4%, and other miscellaneous

revenues increased by 11.6% (Table 2).

Table 2. Dynamics of State Budget Revenues, million AZN

	2020	2021	2022	2023	2024
Revenues – Total	24681,7	26396,3	30679,6	35236,39	37161,8
<i>Including:</i>					
Personal Income Tax	1151,0	1194,6	1474,4	1659,64	1839,2
Corporate Profit (Income) Tax	2351,7	2958,4	8522,5	8024,29	6786,9
Land Tax	40,8	45,7	47,4	47,78	54,3
Property Tax	186,8	211,3	231,5	292,84	338,5
Value-Added Tax (VAT)	4818,3	5214,5	6946,2	8127,73	8894,3
Excise Tax	898,2	1105,8	1358,9	1452,19	1555,7
Mineral Resource Tax	130,2	138,4	161,0	163,45	173,3
Taxes on Foreign Economic Activity	1160,6	1360,0	1642,9	1800,87	1902,9
Other Taxes	413,8	418,8	471,8	494,36	518,8
Miscellaneous Revenues	13530,3	13748,8	9823,0	13173,24	15098,0

The table was compiled by the author based on data from the State Statistical Committee.

Tax revenues constitute the main component of state budget revenues. In 2024, 18.3% of the state budget revenues were formed from corporate profit tax, 4.9% from personal income tax, 23.9% from value-added tax (VAT), 5.1% from taxes related to foreign economic activity, 4.2% from excise tax, and 40.6% from other miscellaneous revenues⁴(Figure 1).

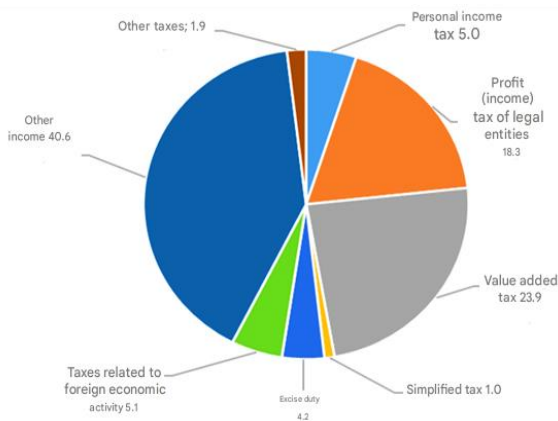


Figure 1. Structure of State Budget Revenues in 2024, %

Source: Compiled by the author based on data from the State Statistical Committee.

⁴ İbrahimov E.Ə. İqtisadiyyatın davamlı inkişafının maliyyə-büdcə tənzimlənməsi və stimullaşdırılması. Monoqrafiya. “Kooperasiya” nəşriyyatı, Bakı, 2018. – 320 s.

Analysis of statistical data indicates that, compared to 2020, state budget expenditures increased by 42.7% in 2024, reaching AZN 37.7 billion. During the same period, expenditures on education grew by 49.9%, healthcare by 8.7%, social protection and social security by 35.6%, activities not attributed to culture, art, information, physical education, and other categories by 35.1%, science by 26.0%, judiciary, law enforcement, and prosecution by 59.5%, and expenditures for legislative and executive authorities, as well as local self-government bodies, increased 1.6 times (Table 3).

Table 3
Dynamics of State Budget Expenditures, million AZN

Indicators	2020	2021	2022	2023	2024
Total Expenditures	26416,3	27422,4	32064,6	36457,96	37712,72
Education	3 034,7	3 277,6	3 886,6	4407,1	4550,3
Healthcare	1 716,5	1 378,6	1 708,7	1804,9	1866,4
Social Protection and Social Security	3 237,0	3 692,7	3 728,5	4315,9	4391,4
Activities not attributed to Culture, Arts, Information, Physical Education, and Other Categories	426,0	418,1	463,1	550,8	575,6
Science	187,3	151,8	204,9	225,3	236,08
Judiciary, Law Enforcement, and Prosecution	1 936,7	2 092,8	2 482,2	2833,6	3089,8
Maintenance of Legislative and Executive Authorities, and Local Self-Government Bodies	1 051,8	1 062,4	1 481,8	1651,4	1661,2

Source: Compiled by the author based on data from the State Statistical Committee.

Analysis of statistical data indicates that, in 2024, 25.7% of state budget expenditures were allocated to economic activities, 17.4% to defense and national security, 10.9% to general government services, 11.6% to education, 11.0% to social protection and social security, 5.0% to services not classified under main categories, 7.5% to judiciary, law enforcement, and prosecution, and 4.9% to healthcare (Figure 2).

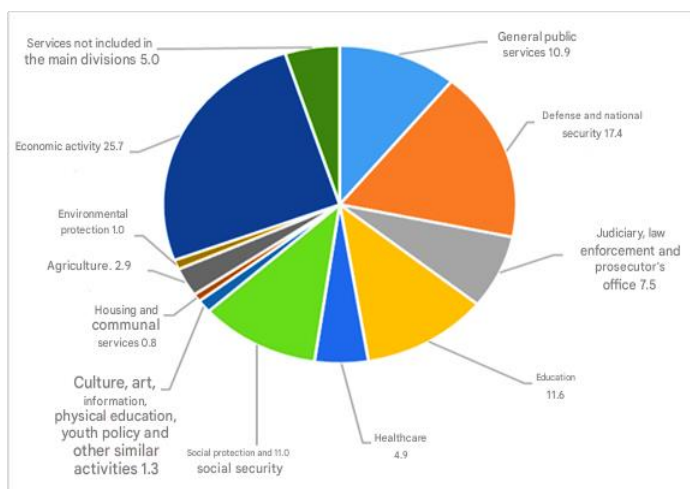


Figure 2. Structure of State Budget Expenditures in 2024, %

Source: Compiled by the author based on data from the State Statistical Committee.

Based on the research, it can be noted that the state relies more extensively on taxes and investments to shape and develop revenue and expenditure policies. By regulating the share of investments in total expenditures, the state seeks to manage the efficiency of spending. In this context, reducing the tax burden on economic agents to regulate GDP growth rates is one of the most important issues. Considering the relationship between tax burden and tax rates enables the achievement of effective results and ensures sustainable GDP growth.⁵

Thus, the research suggests that the successful development of the economy significantly depends on tax revenues alongside many other factors. Therefore, for sustainable economic growth, state policy plays a crucial role not only in the efficiency of financial relations but also in tax regulation. In developed countries, extensive use is made of tax incentives in this regard. According to this approach, economic agents are initially subject to a minimum income tax rate, which is subsequently adjusted according to the development of the entities. Such measures not only reduce the tax burden but also stimulate the creation of new economic entities through lower tax rates. In this context, in practice, priority is given to digitalization and the implementation of electronic document

⁵ Mustafayev R. A. *Büdcə xərçələrinin strukturunun iqtisadi artıma təsiri // ADAU-nun Elmi Əsərləri. Gəncə, 2021, №3. s.145-148.*

flow to enhance interactions between tax authorities and economic agents. These measures reduce time losses associated with obtaining necessary certificates, extracts, and other documents from tax authorities, as well as additional costs. At the same time, such measures contribute to the long-term diversification of the economy, increase the efficiency of interactions between the state and economic agents, and promote the investment attractiveness of the economy.

The third chapter, entitled *“Improving Fiscal Policy and Enhancing Its Efficiency in Ensuring Economic Development in Azerbaijan”*, identifies directions for implementing fiscal policy efficiency criteria in promoting economic development. It also examines ways to enhance the interaction between budgetary and tax policies, outlines directions for fiscal policy improvement, and analyzes the linkage of fiscal policy with economic development and its stimulating aspects.

Fiscal policy aimed at ensuring sustainable economic development is characterized by both positive and negative impacts on economic stability. Therefore, it is constantly relevant to implement activities aimed at achieving efficient outcomes in fiscal policy. In this regard, key objectives of fiscal policy include aligning GDP with its potential level, ensuring employment, maintaining price stability, and minimizing the risk of inflation. It should be noted that the effectiveness of fiscal policy is determined not only by changes in GDP value but also by the goals set and the results achieved. This primarily requires consideration of fiscal policy efficiency criteria.

Research indicates that increasing GDP is a primary objective of state economic policy in every country. Accordingly, the efficient organization of budgetary processes within fiscal policy—a primary tool for stabilizing macroeconomic processes and market conditions—requires the use of increasingly advanced concepts. This is directly related to the criteria for evaluating fiscal policy effectiveness, which include the share of the budget deficit in GDP, the share of public debt in GDP, and the outcomes of fiscal objectives in the short and medium term.

Examining the share of revenues and expenditures of Azerbaijan’s state budget in GDP shows that, compared to 2020, both revenue and expenditure shares decreased by 4.7% and 6.6%, respectively, in 2024 (Table 4).

Table 4

The Share of State Budget Revenues and Expenditures in GDP, %

Years	Share of Budget Revenues in GDP, %	Share of Budget Expenditures in GDP, %
2020	34,1	36,5
2021	28,5	29,5
2022	22,9	24,0
2023	28,9	29,6
2024	29,4	29,9

Source: Table compiled by the author based on data from the State Statistical Committee.

Based on generalizations, it can be noted that one of the factors determining the efficiency criteria of fiscal policy in ensuring economic development is the structuring of measures to be implemented within this concept according to their significance. Such structuring ensures a comprehensive approach to achieving overall objectives and maintaining the effectiveness of fiscal policy at all stages of economic processes.

Research indicates that when preparing a rational fiscal strategy, it is important to consider the level of business activity of economic agents as well as the phases of the economy when analyzing the budget deficit or surplus. A decrease in economic activity and business operations may result in lower tax revenues, and conversely. Directing government expenditures to priority sectors and implementing programs to reduce the tax burden are integral components of fiscal policy that stimulate economic growth. When evaluating the budget, the deficit or actual surplus is analyzed in terms of GDP. In this context, the dynamics of the state budget's revenues and expenditures show that during 2018–2022, the budget resulted in a deficit. Considering the share of the budget deficit in GDP, different situations are observed across the years: 0.3% in 2018–2019, -2.4% in 2020, -1.1% in 2021, and -1.0% in 2022 (Table 5). As seen, the highest share of the budget deficit in GDP was recorded in 2020.

Table 5. Share of the State Budget Deficit in GDP, %

Year	Budget Deficit (-)	Share in GDP,
	Surplus (+)	%
2020	-1734,6	-2,4
2021	-1026,1	-1,1
2022	-1385,0	-1,0
2023	-1221,6	-1,0
2024	-550,9	-0,4

Source: Table compiled by the author based on data from the State Statistical Committee.

Currently, the development of the interrelations between the tax and budgetary systems, as well as aligning their functions with the state's long-term economic policy, represents one of the most critical issues in fiscal policy. In this context, it is essential to implement tax reforms and budgetary regulation in a coordinated manner. Considering international experience in identifying opportunities for forming a more effective fiscal policy model can yield positive outcomes in this direction.

Depending on the macroeconomic situation, the formation of an efficient tax and budget system, stimulation of market conditions, ensuring employment, promotion of business activity, combating inflation, and improving the social well-being of the population comprise the main directions of fiscal policy. Ultimately, fiscal policy aims to ensure sustainable economic growth. In this regard, the state pays special attention to employing more advanced mechanisms in budget expenditures and taxation to influence production volume, employment, and inflation as part of macroeconomic regulation.

Research indicates that maximizing the potential of fiscal policy, including the proper formation of the state budget, can effectively facilitate economic development. Since fiscal policy is itself a process governed by certain economic laws, achieving its goals requires the fulfillment of specific conditions. The necessity of establishing such conditions is particularly important when implementing taxation and determining state budget expenditures. Accordingly, the key directions include considering the interrelations between economic and fiscal policy, highlighting the methodological and fiscal aspects of macroeconomic processes and conditions.

It should be noted that policies aimed at stimulating economic development are based on the characteristics of regional development. In this context, budgetary allocations determine regional investments in terms of efficiency. Thus, revisiting existing models of budgetary relations and directing financial resources toward the diversification of the economy can be regarded as one of the main directions in economic development. In any case, the model of distributing financial resources across economic sectors should be based not merely on economic appropriateness but primarily on efficiency criteria.

CONCLUSION

The dissertation focuses on one of the most critical economic issues—the formation and implementation of an effective fiscal policy that promotes economic development. Research conducted in this direction allows for the generalization of several key findings. First, it can be noted that the macroeconomic essence of fiscal policy, including the interrelation between tax and budgetary policies, is characterized by its capacity to stimulate economic growth.

The study of various fiscal policy concepts shows that the fiscal system is a complex of measures that influence the economy through the structure of state revenue sources—taxes, fees, allocations to the budget and extrabudgetary funds, modifications of compulsory payment types and rates, determination of the volume, composition, and direction of state expenditures, subsidies, and other instruments aimed at stimulating economic activity and enhancing efficiency. Research indicates that achieving fiscal policy goals is possible by addressing certain fiscal policy challenges, particularly through the stable growth of national income and GDP, reducing inflation, increasing employment, and regulating economic fluctuations.

Evaluating the effectiveness of fiscal tools that affect production activities and the revenue side of the state budget is essential. Generally, such evaluation criteria may contain certain contradictions. The regulatory impact of taxes as a component of fiscal policy manifests itself significantly within economic processes. In this context, changes in production and income levels directly determine tax revenues and state expenditures. Nevertheless, economic development is closely linked to fiscal policy decisions concerning taxation.

Fiscal policy comprises state revenues and expenditures. It is a component of state financial policy, but it indirectly affects monetary relations. The impact of fiscal policy on economic development is based on the use of tax-budget instruments, and its objectives are significantly interrelated. In practice, the goals and objectives of fiscal policy implemented through the tax system are aligned with the objectives and functions of budgetary policy.

Based on these findings, the formation and implementation of an

effective fiscal policy aimed at economic development, and achieving more efficient outcomes, may involve the following measures:

1. Fiscal policy operates within the system of inter-budgetary relations as a determinant in a cause-and-effect unity. These relations encompass priorities aimed at realizing the principles of fiscal equivalence through the efficient use of financial resources. Effective fiscal policy is therefore formed considering the principles of state budget financing. Modern fiscal policy primarily represents a distributive function, enabling the identification of the most essential instruments. In this regard, establishing an institutional environment that allows for the determination of budget revenues and expenditures and ensures the efficient use of budgetary resources is a crucial aspect of effective fiscal policy formation.
2. The multi-component nature of fiscal policy allows for assessing its role in the country's economic development level through comparative analysis of budget parameters. This necessitates the use of an indicator system that characterizes the operational features and interrelations of essential tools, such as budget revenues, expenditures, and transfers. In this context, it is important to identify the main indicators characterizing national economic development, particularly GDP volume and its sources of financing, as well as their quantitative and qualitative characteristics.
3. Fiscal policy implemented within the framework of accountability is a key institutional mechanism for enhancing the efficiency of financial resource utilization. International experience shows a strong link between tax-based revenue formation, state budget expenditures, and the pace of economic development. Increases in state expenditures, reductions in taxes, or structural adjustments of taxes can stimulate aggregate demand. Therefore, integrating taxation and expenditures into a unified mechanism and considering the relationship between taxes, budget expenditures, and GDP is essential.
4. The positive effects of fiscal policy require the creation of a stable economic environment, which presupposes a sufficiently high GDP. Calculations indicate that a 1% increase in budget revenues can increase GDP by 0.64%, while a 1% increase in budget expenditures

may raise GDP by 0.59%. Accordingly, justifying budget policy, including the allocation of funds to specific economic sectors, is necessary to ensure the proper economic and institutional environment. In this way, the budget system can secure sustainable economic growth, improve living standards, and enhance the quality of life.

5. Analysis of fiscal policy practices in developed countries confirms the significant impact of the budget system on macro- and microeconomic processes. In this context, the diversity of financing sources, along with the characteristics of economic activity sectors, emphasizes the use of alternative combinations in structuring budget expenditures. The effectiveness of budgetary policy is determined by the state's influence on changes in revenues and expenditures. High levels of budget revenues and expenditures enhance the state's ability to fulfill social and economic functions. Program-targeted approaches allow the positive effects of revenues and expenditures to be observed.
6. The implementation of fiscal measures requires time. Decision-making, budget allocation, and changes in the tax system are sequential processes, and the results appear after a certain period. Factors affecting fiscal policy decisions are not always optimal regarding economic efficiency. Reduced tax revenues and increased spending on social programs may temporarily cause a budget deficit and negatively impact fiscal efficiency. Conversely, increasing tax revenues through higher rates and reducing social spending may decrease economic activity. Without adequate financial resources, increased state expenditures can cause inflation. Thus, coordination of fiscal policy measures is necessary.
7. Research indicates that the goals of fiscal policy can be achieved through GDP growth, controlling and reducing inflation, ensuring full employment, and stabilizing economic fluctuations. Stimulating the business activity of economic agents to achieve economic growth is a primary objective. These goals are addressed through regulatory, supervisory, and balancing mechanisms. The regulatory impact of taxes manifests at different stages of the economic cycle, influencing production levels through changes in tax revenues and state

expenditures. Effective fiscal influence on production requires flexible and timely taxation decisions.

8. State revenue policy, as an element of fiscal policy, determines tax revenues, the volume and direction of state expenditure, and regulates inter-budgetary relations. The objectives of tax-budget policy are interrelated and mutually dependent. Ensuring coherence between individual components is essential. Consequently, the formation and implementation of state fiscal activity rely on tax and budgetary relations. Establishing taxes that do not harm the economy while minimizing the tax burden is vital.
9. The functional nature of taxes defines the operation and scope of the tax system, forming the foundation of tax policy. The fiscal function of taxes distinguishes them as a tool of fiscal and economic policy. Tax policy integrates fiscal and regulatory objectives and can evolve at various levels, reflecting changes in essence and quality. The regulatory role of taxes includes the potential to implement different taxation instruments. The magnitude of the tax burden is a key economic characteristic of tax relations and depends on the development model and fiscal policy. Excessive taxation impedes societal welfare and negatively affects economic development. Therefore, reduced tax burdens and tax relief schemes align with different economic policy priorities, particularly in models with significant state intervention.
10. Optimizing budget expenditures and taxes justifies the economic content of fiscal policy. Macroeconomic efficiency is determined by the economic outcomes of tax and expenditure measures, which are directly related to investment activities. Microeconomic efficiency improvements include rationalizing taxation, optimizing tax rates, ensuring fairness across taxpayers, stabilizing the tax mechanism, proper allocation of expenditures, and efficient use of allocated funds. Strengthening tax compliance and effectively using tax revenues to enhance economic development and societal welfare are critical priorities.
11. One of the main directions of state fiscal policy is the incorporation of social policy elements in the organization of the tax and fee system and budgetary expenditure allocation. Fiscal policy functions as both

an economic regulator and a social stabilizer, maintaining balance among population groups. For addressing social issues, it is necessary to: develop a refined classification of tax reliefs; apply progressive and effective taxation based on income levels; adjust tax rates according to material conditions and purchasing capacity; exempt certain activities from taxation, etc.

12. International experience suggests an optimal tax burden of 20–25%. OECD countries exhibit an average tax burden of 32–34%, Eastern Europe and Baltic countries 27–30%, and developing countries (including CIS) 15–25%. In Azerbaijan, recent tax revenues represent approximately 14–16% of GDP, lower than many developed and transition economies. This is partly due to the extensive informal sector, limited tax base, and preferential regimes. Maintaining a 17–19% tax burden while expanding the tax base and improving administration can enable a more efficient and balanced fiscal policy.
13. The efficiency of budgetary policy is determined by the state's influence on changes in revenues and expenditures. Higher levels of budget revenues and expenditures enhance the capacity to implement social and economic functions. State expenditures and taxes directly affect aggregate demand, production volume, and employment. Therefore, optimizing the structure of state expenditures while directing resources to high-tech production, social and scientific activities, and improving living standards constitutes a priority of fiscal policy.

In connection with the topic of the dissertation, the author has also published the following articles and theses.

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